

Message Text

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 1321

C O N F I D E N T I A L CARACAS 13288

E.O. 11652: GDS

TAGS: ENRG, VE

SUBJECT: OIL PRICE - CHEVRON, AMOCO, ARCO AND IPC

REF: STATE 293879

1. FOLLOWING INFORMATION IS PROPRIETARY AND SHOULD NOT BE
DISSEMINATED TO THIRD PARTIES.

2. RON KITCH, NEW CHEVRON VENEZUELA PRESIDENT, TOLD PETROLEUM
ATTACHE THAT CHEVRON OIL REPLIED TO GOV OFFER OF BOSCAN CRUDE
AT \$10.00 PER BARREL WITH COUNTEROFFER OF \$9.15. (KITCH NOTED
WITH PARTICULAR EMPHASIS THAT THIS LATTER FIGURE IS PROPRIETARY
INFORMATION.) KITCH SAID THAT CHEVRON HAS NEVER BEEN ABLE TO
MARKET THE 10 API GRAVITY BOSCAN, WITH THE HIGHEST SULFUR AND
VANADIUM CONTENT OF VENEZUELAN CRUDES FOR AS MUCH AS \$10.00.
KITCH IS ALSO AT A LOSS TO UNDERSTAND WHY MORICHAL, MONAGAS AND
BACHAQUERO CRUDES WITH HIGHER API GRAVITIES WERE PRICED LESS THAN
BOSCAN.

3. KITCH SAID THAT CHEVRON DID NOT OFFER TO LIFT ANY BOSCAN
CRUDE AT THE \$10 PRICE. ASKED WHAT WOULD HAPPEN TO THE COMPANY'S
TECHNICAL SERVICE FEE IN THE ABSENCE OF OFFTAKE, KITCH REPLIED
THAT THE FEE IS NOT BASED ON OFFTAKE, BUT RATHER ON PRODUCTION.
HE STATED THAT CHEVRON IS NOW DOWN TO 30,000 B/D DUE TO THE NORMAL
OFF SEASON FOR ASPHALT CRUDES IN THE U.S. THE COMPANY CURRENTLY
HAS AN INVENTORY OF 1.5 MILLION BARRELS, WITH A CAPACITY TO STORE
5 MILLION BARRELS IN VENEZUELA. THUS, CHEVRON COULD CONTINUE
TO PRODUCE AT NEAR THE CURRENT LEVEL WITHOUT LIFTING OIL UNTIL
EARLY MARCH WHILE COLLECTING THE TECHNICAL SERVICE FEE. KITCH IS
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CONVINCED THAT THE GOV WILL HAVE TO GIVE ON THE PRICE ISSUE

BEFORE MARCH.

4. AMOCO, ANOTHER EXPORTER OF ASPHALT CRUDE, FOUND ITS PRICE MORE OR LESS ACCEPTABLE. THE COMPANY'S LOCAL MANAGER, HOWARD DALTON, TOLD THE AMBASSADOR THAT AMOCO HAS OFFERED TO LIFT ABOUT TWO-THIRDS OF ITS CURRENT PRODUCTION--OR PRESUMABLY SOMEWHERE IN THE 18-20,000 B/D RANGE.

5. ARCO, ON THE OTHER HAND, IS NOT INTERESTED AT THESE PRICES; ACCORDING TO LOCAL MANAGER HUGH SHEFFIELD. HE TOLD THE AMBASSADOR THAT HIS COMPANY HAS TENDERED NO OFFTAKE OFFER AND WILL NOT DO SO ABSENT PRICE ADJUSTMENTS. SHEFFIELD CLAIMED THAT ARCO HAS ALREADY ARRANGED TO REPLACE PART OF ITS PRODUCTION HERE WITH 30,000 B/D OF COMPARABLE MEXICAN CRUDE AT A SUBSTANTIAL SAVING OVER THE \$12.40 BARREL AT WHICH THE GOV IS OFFERING "LAGO MEDIO" CRUDE. SHEFFIELD NOTED THAT HIS COMPANY EXPECTS NO TECHNICAL SERVICES CONTRACT IN THE ABSENCE OF AN OFFTAKE AGREEMENT BUT HAS LITTLE INTEREST IN THAT KIND OF OPERATION IN ANY CASE.

6. JOHN DAILEY OF IPC TELLS US THAT HIS COMPANY HAS ALSO DECLINED SO FAR TO SUBMIT AN OFFTAKE OFFER. IPC HAS SIMPLY STATED THAT IT WILL "STUDY" THE PRICES TABLED BY THE GOV. DAILEY PROFESSES SOME HOPE THAT THE GOV WILL BACK AWAY IN TIME BUT HE SEES NEGOTIATIONS CONTINUING WELL INTO JANUARY.

7. COMMENT: WE BELIEVE IT MOST UNLIKELY THAT THE GOV WILL PERMIT CHEVRON TO PRODUCE AND COLLECT A FEE WITHOUT LIFTING SOME QUANTITY. ARCO IS PROBABLY RIGHT: NO OFFTAKE, NO TECHNICAL SERVICES CONTRACT.
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